

Message Text

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PAGE 01 BRASIL 07432 261824Z

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 PA-02 PRS-01 /069 W

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R 261700Z AUG 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 1143

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

UNCLAS BRASILIA 7432

E.O. 11652: N/A

TAGS: EFIN BR

SUBJECT: GOB EXTENDS NEW FISCAL INCENTIVE TO

PRIVATE INDUSTRY PROJECTS IN PRIORITY

ECONOMIC SECTORS

1. GOB HAS LOWERED THE COST OF FINANCING FOR SOME PRIVATE SECTORS INDUSTRIAL PROJECTS IN PRIORITY AREAS OF THE ECONOMY. DECREE-LAW NO. 1,410 OF JULY 31, 1975, ENABLES ELIGIBLE PRIVATE BORROWERS OF LONG-TERM LOANS FROM GOB-CONTROLLED FINANCIAL INSTITUTIONS TO DEDUCT FROM THEIR INCOME TAX LIABILITIES THE VALUE OF MONETARY CORRECTION EXCEEDING 20 PERCENT. THIS MEASURE REPRESENTS AN IMPROVEMENT ON AN EARLIER DECISION OF THE BND, THE LARGEST GOVERNMENT-OWNED FINANCE AGENCY, DEFERRING THE PORTION OF MONETARY CORRECTION ABOVE 20 PERCENT.

2. THE SECTORS BENEFITTING MOST FROM THE CHANGE AREA CAPITAL GOODS INDUSTRY; STEEL MILLS, FOUNDRIES AND FERRO-ALLOYS; NON-FERROUS METALS RESEARCH, MINING AND MERALLURGY; PRODUCTION OF WOOD PULP, CELLULOSE AND PAPER; CHEMICAL AND PETROCHEMICAL INDUSTRIES; CEMENT INDUSTRY, FERTILIZERS INDUSTRY; AND SMALL AND MEDIUM INDUSTRIAL AND COMMERCIAL COMPANIES.

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PAGE 02 BRASIL 07432 261824Z

3. COMMENT: RECENT HIGH INFLATION RATES# HAD MADE
BORROWERS RELUCTANT TO ASSUME LONG TERM LOANS AS
FINAL COST OF LOAN, OWING TO MONETARY CORRECTIONS,
HAD BECOME VERY UNCERTAIN. CHANGE IN MONETARY
CORRECTION POLICY WILL LIMIT INTEREST RATE ON GOB CONTROLLED
FINANCIAL INSTITUTION LOANS TO 25 PERCENT TAKING INTO
ACCOUNT THE REAL INTEREST RATE PLUS THE 20 PERCENT LIMIT
ON MONETARY CORRECTION. BRAZILIAN MAJORITY-OWNED
COMPANIES, THE ONLY ONES (PERHAPS WITH VERY FEW
EXCEPTIONS) ELIGIBLE FOR THIS INCENTIVE, SHOULD
BENEFIT FROM THE EFFECTIVE CEILING ON LOAN FINANCING
THIS YEAR SINCE THE INFLATION RATE WILL BE CONSIDERABLY ABOVE 20
PERCENT. THE OBJECTIVE OF THIS ACTION IS TO STIMULATE
INVESTMENT DEMAND AT A TIME WHEN THE ECONOMY IS GOING
THROUGH A DIFFICULT PERIOD.
CRIMMINS

NOTE BY OC/T: #AS RECEIVED.

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NNN

Message Attributes

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Margaret P. Grafeld
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